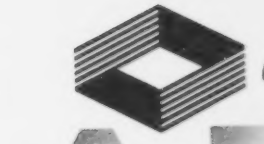

Unique Financial Services

AFSC

ANNUAL REPORT 2002-2003

Vision

...unique financial services to grow Alberta.

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Mission Statement

We help customers in the developing small business and agri-industry sectors fulfill their business goals by offering unique financial services.

2002-2003 Board of Directors

Bob Splane, Chairman, Boyle
Lynn Dechant, Fairview
Gene Dextrase, High Level
Aaron Falkenberg, Sherwood Park
Art Froehlich, Calgary
Barry Holmes, Rocky Mountain House
Bernard Kotelko, Vegreville
Brian Manning, Edmonton
Gerard Oosterhuis, Bow Island
Alan Steel, Edmonton
Wayne Wagner, Edmonton

Board Committee Membership

Executive Committee
Bob Splane
Gene Dextrase
Aaron Falkenberg
Bernard Kotelko
Alan Steel

Credit Committee
Aaron Falkenberg
Art Froehlich
Bernard Kotelko
Alan Steel
Bob Splane
Wayne Wagner

Audit Committee
Bernard Kotelko
Lynn Dechant
Gene Dextrase
Barry Holmes
Gerard Oosterhuis

Hearing Committee
Gene Dextrase
Lynn Dechant
Aaron Falkenberg
Art Froehlich
Barry Holmes
Bernard Kotelko
Gerard Oosterhuis

2002-2003 Executive Officers

Alan Steel, President and Managing Director
Andrew Church, Vice-President, Insurance Operations
Krish Krishnaswamy, Vice-President, Finance
Rick McConnell, Executive Consultant and Research Director
Earl Nent, Vice-President, Lending
Alex Wilkinson, Vice-President, Information Technology and Administrative Services

LETTER OF TRANSMITTAL

July 15, 2003

The Honourable Shirley McClellan
Deputy Premier and Minister of Agriculture, Food and Rural Development
408 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

On behalf of the Board of Directors, we are pleased to submit the eighth annual report of the Agriculture Financial Services Corporation.

As required by Section 15 of the Agriculture Financial Services Act (RSA 2000, c. A-12) the report contains a summary of the transactions and affairs of the Corporation, its revenues and the application of its expenditures for the fiscal year ended March 31, 2003. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expense and surplus and a statement of cash flows.

Yours truly,

Bob Splane, Chairman

Alan Steel
President and Managing Director

Minister's Message

A Severe Drought Challenged Alberta Farmers; Alberta's Farmers Pushed Back. While the 2002 crop year will be remembered as one of the worst in Alberta's history, our agriculture industry maintained its position as one of Canada's agricultural powerhouses.

Not surprisingly, the province's most notable decline was due to severe drought in many areas of Alberta, resulting in the crop sector posting a decline of nearly 6.5 per cent with farm cash receipts declining from $2.31 billion in 2001 to $2.16 billion in 2002. But there were many offsetting positive stories in agriculture as well.

Alberta's livestock industry continued to hold its own with total farm cash receipts for livestock in 2002 declining only marginally to $5.09 billion from $5.21 billion in 2001. Dairy production increased 5.3 per cent to $366.8 million in 2002, and the food and beverage manufacturing industry maintained its place as Alberta's largest manufacturing sector at $9.8 billion.

The overall strength of the agriculture industry is reflected in farm cash receipts. In 2002, total farm cash receipts were $8.28 billion, less than a one per cent reduction from the $8.34 billion recorded in 2001. The 2002 figure remains 17.5 per cent higher than the five-year average (1997-2001).

This is a testimony to the hard work and innovation of Alberta farmers who stand up to external pressure and continue to get the job done, despite very difficult conditions that impact the farm operation's bottom line.

Program Payments Helped Cushion the Blow

Another important factor that helped stabilize Alberta farm income in 2002 was the most innovative and comprehensive risk management program in Canada.

Program payments in 2002 made up 12.5 per cent of total farm cash receipts, or $1.04 billion. Clearly, farm risk management and safety net programs administered by Agriculture Financial Services Corporation – like Crop Insurance and the Farm Income Disaster Program – are accomplishing what they were designed to do. We said we wouldn't let our producers down, and we didn't.

As we prepare for another crop year in Alberta, the government will continue to honor its pledge to support this important sustainable industry by developing enhanced

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risk management strategies for Alberta farmers. With this in mind, the province continues to work with the federal government and other provinces to ensure that the needs of Alberta producers will be met under the Agricultural Policy Framework agreement.

Improved Risk Management Solutions are Key to Sound Fiscal Policy

As we move forward, we must show our support in a way that ensures sustainability not only for our producers, but also for the government. The government doesn't like ad hoc programs, and neither do farmers. Early in 2003, we announced significant changes to the province's crop and forage insurance programs to give Alberta farmers more options to protect their farm operations against the volatility of weather and commodity prices.

Other efficiencies are being realized as AFSC progresses with the amalgamation of commercial lending services as a result of merging Alberta Opportunity Company and AFSC on April 1, 2002. Positive impacts of the merger are evident as AFSC now offers a greater number of unique financial products and services from one agency, with new financing options for small businesses. When small businesses in rural locations have access to financial options tailored to their unique needs, everybody wins. A strong rural economy is fundamental to the agricultural industry, and to the growth and vitality of our province.

Despite a tough 2002 in many sectors, the farmers and small business owners I talk to are optimistic about 2003 and beyond. The resiliency of this industry never ceases to amaze me. As farm, agribusiness and small business owners begin another year looking forward, AFSC will be there with risk management strategies, safety net programs and responsive financing to help the industry remain a powerhouse of this province's economy.

Shirley McClellan
Deputy Premier and Minister of Agriculture,
Food and Rural Development

Chairman's Message

Never has risk management and access to financing options been so important. The 2002 crop year was one of the worst on record. Alberta producers experienced lower crop production due to the worst drought in 148 years, pressure from insects, and a lack of feed. Many were forced to sell off some of their herd to pay bills. Exports of both primary and processed agriculture and food products declined in 2002.

We all know that agriculture's reach goes far beyond the farm gate. When agriculture hurts, we all hurt – affecting everything from small businesses in rural centers to prices at the supermarket.

Never have the services of AFSC been so important as they are in today's economic climate. Our unique financial services cover a breadth of challenges and opportunities – from risk management and safety net strategies, to innovative financing for primary producers, small businesses and the agri-industry.

Prudent Planning Positions AFSC to Respond to Both Immediate and Future Needs

AFSC's portfolio is diverse and its products serve many purposes. We respond to those suffering an unplanned loss as well as those needing the capital to realize an opportunity. As a Board, we are charged with the responsibility of creating a long-term vision, with an eye to ensuring we remain nimble and responsive year-to-year.

AFSC is fortunate to have a Board primarily made up of private sector, independent members who are familiar with the challenges of business, and who bring entrepreneurial thinking to the table. Their ideas blend with management to foster an atmosphere of continual improvement, so our financial and risk management strategies continue to meet the evolving needs of farmers and business owners. We also encourage solid business practices, like the private sector reinsurance we purchase to help mitigate our own risk in years of record payments, like the one we experienced in 2002.

Our Future Framework Builds on a Strong Foundation

AFSC models the best practices of many private sector businesses, including strict governance guidelines that ensure the necessary processes are in place so AFSC can effectively fulfill its mandate. The Board's past commitment

to governance practices has won us the recognition of being a leader in this area, with others adopting the governance handbook we have developed. As public scrutiny remains focused on corporate practices, the Board will continue to place a high priority on strategic planning, the refinement of governance practices, and the encouragement of a culture of integrity throughout the organization.

The Board and management have refined AFSC's strategic goals in four areas to sharpen our focus for the years ahead.

Growth:

AFSC will encourage the growth and development of Alberta's small businesses, farms, and value-added agriculture businesses by providing unique financial services. Quite simply, AFSC's uniquely tailored loans and financing options help our customers "turn opportunity into enterprise". Access to capital is a big challenge for start-up companies and beginning and developing farm operations alike.

Sustainability:

AFSC will contribute to the sustainability of the agriculture economy by providing innovative and unique risk management services for farmers. Examples of this are the key changes to crop insurance introduced in 2003 that give farmers new ways to protect not only against production risks, but market risks as well.

Research and development:

AFSC will promote and grow Alberta by developing innovative products and services for Alberta and, where appropriate, market this expertise externally. We will continue to foster consulting agreements, as we have in the past, with Chile, British Columbia and others to share our expertise and use the revenues to offset the cost of our programs here at home.

Efficiency:

AFSC will be efficient, effective and innovative in its operations while maintaining a high level of internal and external customer service. A very successful merger between the Alberta Opportunity Company and AFSC a year ago is but one example of ways we are exploring service improvements. AFSC's customer satisfaction rating – an important measure of how we are performing – remains well above the 80% target over all business units.

Priorities Focus on Customer Needs

AFSC serves a wide variety of customers every year. As customers grow and diversify their operations, their demand for innovative products and services grows as well. Two priority areas for AFSC in 2003 and beyond include working with government and provincial partners in the development of risk management strategies under the Agricultural Policy Framework, and advancement of AFSC's e-business capabilities to create more flexibility for transacting business with customers.

While AFSC is in the business of helping thousands of our customers start and grow their businesses and explore their opportunities, we must also remember that AFSC provides an important last line of defense for thousands of farms. Our safety net products were essential to the survival of many farms in 2002. Our goal is to continue to improve products that meet our customers needs.

Bob Splane, Chairman

Corporate Governance

AFSC's Board has prided itself as a leader in establishing and implementing good corporate governance practices. The Board's approach is to pattern itself after the best practices of Canada's business leaders. The Board works effectively with AFSC management while also maintaining their independence, a must for successful corporate governance.

Corporate Governance Practices

As part of its governance discipline and practice, the Board has developed a Board orientation process for new members. A Board Governance Handbook has been created and Board members are encouraged to reference it regularly. The Board has also adopted a code of conduct and ethics that is acknowledged in writing annually. As part of the annual Board evaluation, each Board member also completes a Board Performance Evaluation Questionnaire and a self-assessment of their performance as a director.

Over the past several years, the Board has formalized and enhanced a number of governance-related processes and procedures. This not only underscores the Board's long-standing commitment to corporate governance, but also ensures appropriate checks and balances are observed and understood by all.

The Board commenced a review of its appeal hearing process with a view to enhancing the independence of the appeal/review process and improving public perception of the appeal process. The Audit Committee has been very proactive in keeping abreast of new responsibilities required of them. Their due diligence processes have improved controls and enhanced the Board's monitoring of corporate results.

Mandate of the Board

In addition to fulfilling its statutory requirements, AFSC's Board of Directors has identified 12 key areas that it must oversee and monitor the following functions:

1. Ensure the Board is organized with the necessary processes to effectively fulfill its mandate;
2. Identify the principal business risks of the Corporation;
3. Protect the Corporation's assets;
4. Establish the strategic course for the Corporation through the annual directional plan;
5. Identify business outcomes and evolve performance expectations and measurement criteria;
6. Ensure that proper internal control mechanisms are in place; ensure the integrity of those internal controls and management information systems;
7. Oversee the management of the Corporation;
8. Monitor performance results and evaluate management performance;
9. Ensure that management development and succession plans are established;
10. Orient new Board members;
11. Develop and monitor a corporate communications plan; and
12. Report results to the Minister and other Corporation stakeholders.

Board Membership

The Board is comprised of people with farming, entrepreneurial and professional skills and experience to not only represent the interests of the Corporation and its stakeholders but also provide leadership and direction for effective and efficient governance of the Corporation. The Board is currently composed of 11 members, one of whom is the Deputy Minister of Alberta Agriculture, Food and Rural Development, one of whom is AFSC's President and Managing Director, while the others are all outside directors. The Board generally meets monthly to conduct the Board business of the Corporation.

Board Committees

Board committees include the Executive Committee, the Audit Committee, the Credit Committee and the Hearing Committee. In order to ensure independence, the Audit Committee and Hearing Committee are composed of directors other than the Chairman, the President and Managing Director, and the Deputy Minister. Each committee has its own terms of reference, job description and reporting requirements, which are annually reviewed and updated. Briefly stated, the Board committee roles are as follows:

- **Executive Committee**: Conduct urgent Board business between regular Board meetings; review governance practices; address human resource issues; review committee structure and membership; review Board performance appraisals; and review budget processes.
- **Audit Committee**: Ensure policies and objectives of the Board are integrated in the business planning and budget process; review quarterly forecasts and financial statements and obtain management explanations for significant variances between budget and forecasts/actual; review and approve internal audit plans which focus on business risk identification and management, review internal audit processes and controls, and meet with external auditors; review and recommend annual financial statements to the Board, follow up on internal and external audit recommendations for compliance. The formal terms of reference of the Committee were discharged satisfactorily during the year.
- **Credit Committee**: Authorize loans or guarantees that exceed prescribed limits of management's authority to approve and recommend changes to lending policies to the Board.
- **Hearing Committee**: Oversees appeal and review committees which hear appeals of insurance contract holders and decide claims within policy and legislation, and hear reviews of farm loan and Farm Income Disaster Program applicants and recommend action to the Board.

Meetings Held and Attendance of Directors

The information below sets out Board of Directors and Committee meetings held and attendance of Directors for the year ended March 31, 2003.

Director	Board Meetings Attended	Committee Meetings Attended
Lynn Dechant	12 of 14	11 of 12
Gene Dextrase	14 of 14	18 of 19
Aaron Falkenberg	13 of 14	24 of 24
Art Froehlich	13 of 14	16 of 17
Barry Holmes	13 of 14	11 of 12
Bernard Kotelko	14 of 14	33 of 36
Brian Manning	10 of 14	4 of 7
Gerard Oosterhuis	13 of 14	11 of 12
Bob Splane	14 of 14	24 of 24
Alan Steel	12 of 12	19 of 20
Wayne Wagner	13 of 14	16 of 17

Board's Expectations of Management

Under the leadership of the President and Managing Director, management is expected to prepare and implement strategic and tactical plans for the Corporation that incorporate the key goals identified in the Board's directional plan. Management is expected to ensure that adequate operational and internal controls are in place to protect the interests of the Corporation, and achieve predetermined measurable results. Management is also expected to operate within the corporate mandate, legislative authorities and follow the government and Board directions.

MANAGEMENT COMMENTARY

Business Operations

The Corporation's mission is to help customers in the developing small business and agri-industry sectors fulfill their business goals by offering unique financial services. In addition to providing loans, crop insurance and disaster assistance programs, the Corporation also provides customers with value-added services, such as financial counselling and business advice, to help develop their own sound business management skills and to work out the financial difficulties they have as they develop and grow their operations.

The Corporation is constantly in touch with our customers throughout the year to ensure our products and services continue to meet their needs. This two-way consultation also forms the basis of our research and development. Our customers' input helps us enhance the effectiveness of our products and services so our offerings remain relevant to our customers and the marketplace.

The Corporation in partnership with an outsourced information technology service provider ensures that computer system applications meet the business needs, are secure and reliable, and are available in a timely manner.

Risk Management

The Corporation managers follow a prudent process of risk identification and know that the management of risk is critical to protecting the Corporation's customers and stakeholders, as well as our business interests.

In our insurance operations, risk is managed through the establishment of premium rates that reflect actuarially sound business principles, and through public and private sector reinsurance. Premium rates are based on actual results of the programs, but also take into consideration the amount that is needed to make each program actuarially sound over the long term. In recognition of the risks involved in paying out larger-than-normal insurance claim amounts due to crop losses in a disastrous year, the Corporation arranges for reinsurance every year. The Corporation management has secured government reinsurance arrangements in accordance with the Canada-Alberta Crop Insurance Agreement. As well, the Corporation management has arranged private reinsurance contracts to mitigate the risk exposure of both the federal and provincial governments in a year – like 2002 – when crop losses amounted to more than the long-term historical average.

In lending operations, in addition to managing credit and interest risks, the Corporation staff is diligent in continuously monitoring economic factors that have a significant influence on the performance of our loan portfolio. Prudent decisions are made to establish adequate allowances for doubtful accounts and losses.

In addition to the above, the Corporation management ensures that solid business practices are followed, including sound business planning and forecasting, strong internal controls, adequate computer system controls, prudent financial controls and effective policies and procedures. Best practices are used throughout the Corporation and the staff has the appropriate skills and experience needed to minimize business risks while protecting the integrity of our programs. As part of these control processes, the Corporation's internal audit department monitors corporate risk management policies. This group provides feedback on compliance and performs operational and functional audits as set out by the annual internal audit plan.

To minimize the impact of unforeseen business disruption, the Corporation has developed comprehensive business resumption and disaster recovery plans.

The Corporation also protects its risk in the area of human resources. Retention of skilled and experienced staff greatly enhances our ability to achieve the goals of the Corporation. The Corporation's employees receive fair and equitable treatment, appropriate delegation of responsibility with authority, competitive remuneration and benefits, excellent access to training and ample opportunity for advancement. This, coupled with an effective system of performance evaluation plus recognition of good work and long service, has resulted in a highly motivated and satisfied work force.

Financial Analysis

The following analysis should be read in conjunction with the Corporation's financial statements and notes to those financial statements.

Budgets are based on the long-term average of crop growing conditions plus forecasted commodity prices. In 2002-03, crop insurance premiums from all sources were $57 million higher than budgeted premiums due to higher-than-anticipated program participation and the higher risk coverage that came partly as a result of increased commodity prices.

Budgeted claims are based on long-term historical average loss-to-premium ratios. Claim payments under crop insurance exceeded the budget. The 2002 crop year was the worst year in history for crop losses resulting from severe widespread drought in the province. Claims under crop insurance were $804 million, $636 million more than the budgeted amount of $166 million. This increase over the budget was funded by recoveries from private reinsurance of $108 million and an accumulated surplus which, after payments, was reduced from $422 million to $132 million as at March 31, 2003.

The Corporation lends to beginning and developing farmers. This less established borrowing group exposes the Corporation to higher risk than loans made to established businesses by conventional lenders. To compensate for this risk, the Corporation carries significant allowances for doubtful accounts and losses. As at March 31, 2003, allowances totaled $27.6 million or 3.4% of outstanding farm loans and guarantees. Most farm loans are secured by land, whereas commercial loans are secured by a variety of assets including land, building and equipment. Commercial loan security is unique to a particular business and often has reduced resale value which resulted in allowances for commercial loans set at 7.1% of $171 million in outstanding loans and guarantees.

Sustained interest rate increases pose a risk to the Corporation in terms of higher interest expense and lower fair market value of loans. The terms and conditions applicable to the Corporation's loan portfolio vary

significantly from the those of its borrowing. To mitigate the impact future changes in interest rates have on cash flows and fair value of assets and liabilities, the Corporation has been successful in matching the repayment amount and timing of borrowing with the repayment amount and timing of loans to customers as closely as practical. As at March 31, 2003, the gap between the amount of loan and debt repayments due for period 1 to 10 years is reasonable. The debt due over 10 years is about $78 million lower than the loan repayments receivable during the same period because the loans due over a period of more than 10 years are funded partly by the accumulated surplus from lending operations of $51 million. Overall, the gap and consequent risk is low.

The Corporation continues its important work of providing entrepreneurs in Alberta with the unique financial options they need to continue building viable businesses that contribute to Alberta's dynamic economy. We will continue to be inspired by these entrepreneurs as we also strive for excellence in our own operations.

Summary of Operations

AFSC provides unique financial services to Albertans maintaining and growing their businesses in the agriculture and small business sectors. By helping our customers manage their risk and find financing appropriate for their business development, AFSC contributes to growth in the province. Our goal is to be responsive to our customers, in a way that is relevant to their business needs. This means continually improving our lending, insurance, risk management and safety net products and services.

Insurance

Business Profile

The Canada-Alberta Crop Insurance program is Alberta's major crop protection program. Risk management tools – like crop insurance – are necessary for farmers to compete in this fast-changing global marketplace. AFSC's insurance programs are voluntary and can be personalized to any farm business. The farmer chooses what works best for his individual operation – which crops to insure, and the level of coverage for each crop. Available to farmers is Crop Insurance (including Hail Endorsement), Straight Hail Insurance, Forage Insurance and Waterfowl and Wildlife Damage Compensation for which there are more than 140 plans available on over 60 different crops.

Operation Highlights

- AFSC paid over $796 million in crop, forage (hay and pasture) and straight hail insurance claims
- Crop Insurance was purchased on 11.1 million acres, with 8.9 million of those acres insured by a Hail Endorsement rider
- Forage Insurance (hay and pasture) was purchased on 9.7 million acres, an increase from 2.6 million acres in 2001
- Straight Hail Insurance was purchased on 3.1 million acres, a reduction of 300,000 acres from the previous year mainly due to poor crop conditions resulting from the drought
- Total premiums increased to $249.2 million for all crop insurance programs, up from $205.3 million the previous year
- Private sector reinsurance companies from different parts of the world reinsured AFSC against extreme crop insurance losses (between 115% and 180% of premiums), and corresponding adjusting costs, which reduced government risk by $113.4 million in 2002
- There was a 57% increase in the number of claims, with total claims rising from 14,124 in 2001 to 22,240 in 2002
- The average 2002 claim amount was 76% higher at $35,942 in 2002, compared to $20,388 in 2001
- To complete claims assessments, AFSC used additional qualified adjusters and also brought in adjusters from others provinces to add to the existing AFSC adjusting workforce

Performance Measures - Insurance

Business Goal 3:

To provide risk management and safety net products that enable the industry to manage risk.

Key Results

Products are being used by clients to meet industry's changing risks.

Measures

Participation rate of insurance program.

Performance

- 76% of Alberta's eligible seeded acres were operated by insured farmers. (Target: 75% of total eligible acres)
- 11.1 million acres insured under crop insurance; 0.7 million acres under forage insurance; and 3.1 million under Straight Hail; total of 14.9 million acres. (Target: 12.6 million acres insured)
- 9.0 million acres under pasture insurance.
- AFSC insured $1.9 billion in risk, a 20% increase over 2001.

Measures

Number of crop insurance plans available each year.

Performance

- 140 plans available.

Business Goal 3: *(continued)*

Key Results

Products that customers want are targeted to cover important risks.

Measures

Percentage of farmers for which identified priority risk products are available.

Performance

- 81% of insurance customers agreed that AFSC provides products that cover the higher risks identified by producers.
  (Target: 2002 is baseline year)

To provide risk management and safety net products that enable the industry to manage risk.

Key Results

Enhance stability of the farm unit.

Measures

Percentage of farmers who say insurance products provide stability or overcome disaster.

Performance

- 83% of insurance customers agreed that AFSC provides insurance products that provide stability or help overcome disaster.

Business Goal 4:

To continuously research and develop our unique products to meet customers' needs.

Key Results

New products are developed and existing products are improved in response to customer needs.

Measures

Number of recommendations or proposals for new or modified production and income risk management programs and products.

Performance

- Implemented four new or enhanced plans for 2002 crop year:
  - Lack of moisture pilot insurance program for native and improved pasture
  - Lack of moisture and area production-based pilot insurance programs for cereal silage
  - Expanded satellite imagery insurance for pasture
  - Amended coverage for Polish and Argentine canola
- Researched and developed six new or enhanced plans for 2003 crop year:
  - Coverage based on regional productivity for pasture insurance
  - Variable price benefit for crop, hay and pasture insurance
  - Stabilization of risk area normals
  - Methodology to determine Fall Market Price
  - Spring Price Endorsement
  - Revenue Insurance Coverage
  - Expansion of cereal silage insurance

  (Target: Research and develop 5 new or improved risk management/loan plans by 2004)

Crop Insurance Loss to Premium 1978 to 2002 (millions of dollars)

Crop Insurance

Crop Insurance provides compensation for crop losses due to natural perils. Special features and program endorsements are available for farmers who want increased income protection.

Crop Insurance is available for acreage seeded to grains and oilseeds, grain corn, sugar beets, vegetables and a number of specialty crops, including honey. Farmers pay only a portion of the premium cost for Crop Insurance, as the federal and provincial governments pay 50% to 80% of the premium, depending on the coverage level selected.

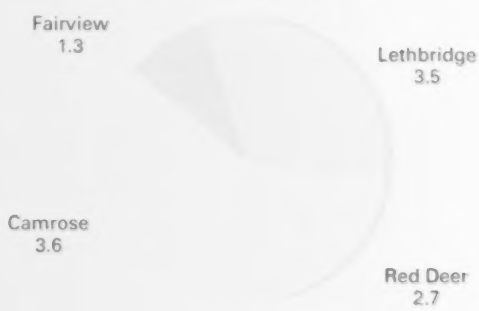
The number of contracts remained steady for the year at 15,078 for Crop Insurance and 12,064 for Hail Endorsement, while the number of acres insured increased to 11.1 million for Crop Insurance and fell to 8.9 million for Hail Endorsement.

The 2002 crop year was the worst Alberta has seen in a long time, due to continued drought throughout much of the province, a cool and dry spring, flooding in June in the southern region, a hot July that brought insects, cool and wet conditions in August, and less-than-ideal conditions throughout harvest. All this stacked up to the highest payout ever for the Crop Insurance program.

In 2002-03, Crop Insurance (including Hail Endorsement) claims paid were $696.2 million, an increase of almost 300% over 2001-02. Premiums totaled $207.5 million, an increase from $179.7 million the previous year, but significantly less than what was needed to cover the losses for the year.

Crop Insurance Acres Insured by Area of Province

(Based on total of 11.1 million acres)



Forage Insurance (Hay and Pasture)

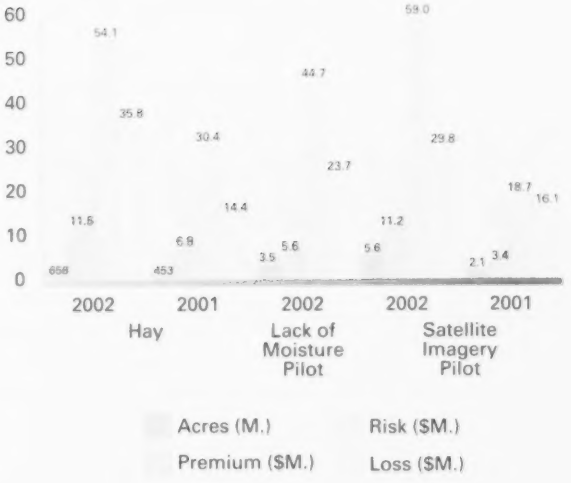
Forage producers also suffered from the devastating impact of the drought in 2002, with many producers experiencing extremely dry pastures and a shortage of feed. AFSC offered three Forage Insurance options for the 2002 crop year – two for pasture, and one for hay crops.

The first option for pasture was the Lack of Moisture Insurance Pilot Program, a province-wide, area-based insurance option that helps producers protect their pasture against lack of moisture at weather stations selected for insurance by producers. The second option was the Satellite Imagery Insurance Pilot Program, first introduced in 2001, and available only in selected areas of southern Alberta until enough information is gathered to determine the long-term viability of the program. This area-based insurance option uses satellite imagery data to assess pasture conditions and determine payments.

For hay crops, Forage Insurance offered a specific production guarantee to producers. This insurance is available on an individual coverage basis, and compensates for production losses on hay crops due to damage caused by natural perils.

For 2002-03, participation in Forage Insurance increased dramatically compared to the previous year due to continued drought conditions throughout the province, and the availability of new options for producers to manage their risk.

Highlights of Forage Insurance Program



Straight Hail Insurance

Straight Hail Insurance provides spot loss coverage for losses due to hail and accidental fire. Coverage can be taken in addition to Crop Insurance, or on its own. Farmers insure up to a maximum dollar coverage per acre, with losses paid based on the percentage of damage that occurs. The Straight Hail program is entirely self-sustaining and operates without government funding.

Participation in Straight Hail Insurance was down slightly in 2002 due to the drought. Just over 3 million acres were insured and the number of contracts, premiums collected and claims paid were all slightly lower than the previous year. Efficient administration and an operating surplus resulted in a rebate of $3.7 million paid back to 5,105 Straight Hail Insurance customers for 2002.

Waterfowl and Wildlife Damage Compensation

The no-premium Waterfowl and Wildlife Damage Compensation program covers crop losses caused by migratory waterfowl, big game animals and upland game birds. Payment covers damaged crop that is either standing or in swaths, or stacked hay subject to certain conditions.

In 2002-03, 756 Waterfowl and Wildlife Claims were paid totalling $3.6 million, a $1 million increase over 2001-02 due to unfavourable late-season weather that delayed harvest, and subsequent unharvested and snowed-under crops that were susceptible to waterfowl and wildlife damage.

Farm Income Disaster Program

Business Profile

The Farm Income Disaster Program (FIDP), delivered by AFSC, is part of the Canadian Farm Income Program (CFIP). FIDP provides income support for actively farming Alberta producers when, for reasons beyond their control, there is an extreme reduction in their farm income. This is a whole-farm safety net program. There is no annual premium and all agricultural commodities are eligible.

Operation Highlights

- 4,007 farmers were paid $111.6 million, primarily for the 2001 claim year
- FIDP payments averaged $27,900 per claim
- The Lethbridge Region experienced the highest percentage of FIDP claims in the province, at 48% of claims, a reflection of the drought in the southern part of the province in 2001

Performance Measures - FIDP

Business Goal 3:

To provide risk management and safety net products that enable the industry to manage risk.

Key Results

Enhance stability of the farm unit.

Measures

Percentage of farmers who say FIDP provides stability or overcomes disaster.

Performance

- 78% of FIDP customers agreed that FIDP provides stability or helps them overcome disaster for the 2000 claim year.

Farmers are required to submit a FIDP application to be considered for compensation under the programs for FIDP and CFIP. The application deadlines are determined by the applicant's taxation year-end. The first page of the application must be submitted by the first deadline, which is seven months after the applicant's tax year-end. If the first deadline is met, then the applicant has two additional months to submit the rest of the application and schedules.

Applicants are eligible for a FIDP payment, subject to certain conditions, when their "claim year margin" (the difference between allowable farm revenue and allowable farm expenses) drops below 70% of their "program reference margin." A "program reference margin" is the average of the three highest program margins out of the five years immediately prior to the claim year. However, if one of the previous years has already been used for a 1998 or later claim, the highest year program margin will be reduced to equal the next highest year's program margin.

Any additional entitlements under CFIP, the national safety net program, are automatically calculated for all FIDP applications received.

For the 2002 claim year, advance payments of up to 50% of the estimated FIDP entitlement were paid to over 550 applicants for a total of nearly $10.8 million, or an average of $19,200 per claim. This compares to advance payments in 2001 of $3.2 million, or an average of $21,300 per claim.

AFSC strives to get FIDP payments to farmers as quickly as possible. The program continued to provide reasonable turn-around times in 2002, despite a 14% increase in the number of claims received. By December 31, 2002, 81% of claims were finalized, compared to 87% in 2001 and 59% in 2000. This resulted in continued high ratings of customer satisfaction regarding turn-around time with 87% of those responding to the 2002 FIDP survey stating that they were satisfied with the services provided by AFSC, compared to 85% the previous year.

Payment History

Claim Year	Number of Claims Received	Number of Claims Paid	Amount Paid ($M.)
2002*	1,007	746	39.0
2001	6,162	3,850	101.2
2000	5,740	3,559	108.9
1999	6,533	4,471	93.2
1998	8,132	6,544	148.7
1997	3,893	3,143	55.7
1996	4,572	3,625	57.8
1995	6,000	4,951	63.9

Figures shown as of May 1, 2003.

*The deadline for submission of FIDP applications for the 2002 claim year is July 31, 2003. The figures for the 2002 claim year do not represent the entire claim year.

FIDP Payments by AFSC Region for the 2001 Claim Year

Claims Submitted and Approved by Regions

FIDP staff were quick to adopt electronic means to deliver services to our customers through the AFSC website. Farmers and accountants can download the latest FIDP Guide, FIDP application forms, worksheets to assist with the completion of claim forms available online, and even a FIDP calculator that allows farmers to enter early information to see what a potential payment under FIDP would be. Web tracking shows that the electronic FIDP forms were among the most-accessed files on the AFSC website in 2002-03.

Farm Lending

Business Profile

AFSC takes a long-term approach to farm lending by offering loan products with competitive interest rates (usually fixed for the life of the loan), incentives to reduce Beginning Farmer Loan principal repayments, and flexible repayment terms. Financial counselling services are provided to farmers who need help reviewing their financial options when their economic situation changes. AFSC Farm Lending products include Beginning Farmer Loans, Vendor Mortgage Loans, Developing Farmer Loans, Alberta Disaster Assistance Loan Program (expires October 31, 2003), Alberta Farm Development Loans and Guarantees on loans from other lenders.

Operation Highlights

- AFSC authorized 1,702 loans totalling $136.3 million
- The drought impacted borrowing, with the number of Beginning Farmer Loans decreased by 14% to 754 loans for a total of $88.8 million. This compares against target of 1,100 loans for $130 million
- Developing Farmer Loans remained steady at 26 loans for $4.7 million
- Alberta Disaster Assistance Loan Program (ADALP) were significantly higher than loans authorized in 2001 under the predecessor program Alberta Farm Income Disaster Loan Program; a total of 258 ADALP loans were authorized for $18.7 million

Performance Measures - Farm Lending

Business Goal 2:

To help industry achieve its goals, AFSC will offer unique farm financial services to assist beginning farmers to establish potentially viable farms.

Key Results

New farmers entering the industry.

Measures

Number of new farmers assisted.

Performance

- 282 new borrowers accessed financing under the Beginning Farmer Loan program.

Business Goal 2: *(continued)*

To help industry achieve its goals, AFSC will offer unique farm financial services to assist beginning farmers to establish potentially viable farms.

Key Results

Beginning farmers will grow their businesses.

Measures

Number of clients that obtain additional capital to expand or diversify their operations.

Performance

- AFSC lends to a higher percentage of repeat buyers than first time clients.

Measures

Number of subsequent loans to existing borrowers.

Performance

- 472 subsequent loans.

Measures

Number of financial consultations.

Performance

- 1,158 beginning farmers received financial counselling. (Target: 1,500 financial consultations)

Key Results

Existing customers become commercially viable (are able to graduate to commercial lenders).

Measures

Number of early loan payouts.

Performance

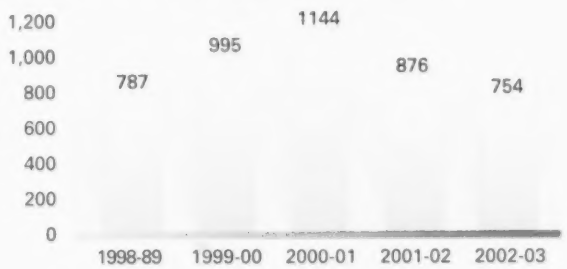
- 629 loans paid out early.

Beginning Farmer

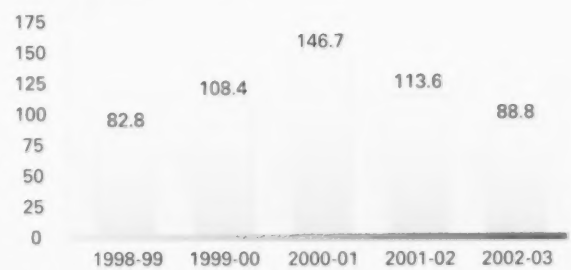
Beginning Farmer Loans provide long-term, fixed-rate loans for new entrants into farming and those who require help to expand or diversify their operations. Qualified borrowers may be eligible for incentives of up to a 1.5% interest rate reduction for the first five years.

Total loan amounts for Beginning Farmer decreased to $88.8 million, from $113.6 million the previous year because fewer farmers were borrowing due to the drought and low commodity prices. AFSC authorized a total of 754 loans, a decrease of about 14% over the previous year, with an average loan amount of about $117,725.

Number of Beginning Farmer Loans Authorized



Amount of Beginning Farmer Loans (millions of dollars)



Developing Farmer

Developing Farmer Loans (DFL) help primary producers whose farm operation is in a more advanced stage of development through long-term loans with fixed rates of interest. The DFL program experienced a lower participation rate in 2002-03 as a result of the Alberta Disaster Assistance Loan Program (ADALP) successfully responding to those suffering from an agricultural disaster. A total of $4.7 million was authorized for 26 Developing Farmer Loans.

Alberta Disaster Assistance Loan Program

ADALP helps producers recover from severe losses beyond the control of management. It addresses a wide range of production and income-related losses and can be used to restore working capital and financial health to an operation through flexible terms and a low interest rate. The stand-by program can be activated at the discretion of the Minister of Alberta Agriculture, Food and Rural Development, thus allowing the province to respond quickly on behalf of producers when help is needed.

This program was initiated early in 2002 to address severe losses on Alberta farms as a result of the 2001 drought and other weather-related losses. Subsequently, between April 1, 2002 and March 31, 2003, 258 loans were authorized for $18.7 million.

Other Guaranteed Loan Programs

AFSC offers the Alberta Farm Development Loan for loans made through commercial lenders (chartered banks, ATB Financial and most credit unions), but guaranteed by AFSC. It makes short, medium and long-term financing available to farmers at a reasonable cost. In 2002-03, the drought negatively impacted the demand for farm loans, whether through AFSC or other lenders. There were 661 loans for $23.4 million, down from last year's 1,040 loans for $28.2 million.

Farm Loan Performance

The majority of the Corporation's loan portfolio is with beginning and developing business operations and hence, is subject to high risk. The Corporation recognizes this by providing significant general allowances for doubtful accounts. AFSC has a well-managed portfolio. At year-end, allowances totaled $27.6 million or 3.4% of outstanding loans and guarantees. A vast majority of loans have annual repayment terms. As such, farm accounts in arrears greater than one year was 1.1% of total loans outstanding, the same as the previous year.

Farm Financial Counselling

AFSC meets with farmers to offer financial counselling services to guide them through challenges facing their farms. Last year, lending staff met with 1,889 farmers to help them assess their financial options, restructure their debt and work out alternatives arrangement with existing creditors. Of those, 1,158 were beginning farmers.

COMMERCIAL

Business Profile

AFSC Commercial is turning opportunity into enterprise with unique financial solutions for Alberta's small business and agribusiness owners. For companies with solid business ideas, AFSC Commercial provides financing directly or by facilitating capital sourcing through partnerships with other lenders. AFSC Commercial offers a number of financing services: Term Debt Financing, Capital Sourcing, Loan Syndication, Export Financing and Financial Restructuring.

Operation Highlights

- AFSC and the Alberta Opportunity Company (AOC) merged on April 1, 2002, and the combined activities of these groups were successfully continued under AFSC Commercial
- The total incremental investment facilitated by AFSC Commercial for the year was $135.3 million, with 387 businesses assisted
- 30 of the businesses assisted were exporters
- AFSC Commercial met the government objective of being fiscally responsible by facilitating $83.9 million from external alliance partners and investors, while lending only $51.4 million from its own resources

Performance Measures - Commercial

Business Goal 1:

AFSC will encourage value-added agriculture and small businesses through the use of AFSC Commercial services and leveraging AFSC funds.

Key Results

Increased investment in value-added production.

Measures

Dollars invested in value-added production and diversification.

Performance

- Facilitated $61.7 million in agri-industry investment, helping 81 agribusinesses with financing. (Target*: $77 million)

Key Results

Increased investment in value-added diversification to support Primary Production.

Measures

Number of businesses assisted.

Performance

- 387 businesses assisted. (Target*: 70 businesses)

Key Results

World Scale Competitive ability.

Measures

Number of businesses assisted that export.

Performance

- 30 businesses were exporters. (Target*: 33%, or 23 businesses)

* AFSC Business Plan Goals and Targets were set prior to the merger in April 2002.

With our thorough understanding of business fundamentals, AFSC Commercial supports entrepreneurs in Alberta's small business and agri-industry sectors through an innovative approach to business financing.

On April 1, 2002 the lending activities of AOC were merged with AFSC Commercial's operations, bringing a wider range of products and services to Alberta business owners. The success of any merger can be measured in part by the continuity of staff, and their satisfaction with the new organization. AFSC Commercial is proud to report that not one front-line lending account manager has been lost in the year following the merger – often the most turbulent time in a merger's implementation.

ASFC Commercial has an abundant expertise in value-added agriculture and food processing. Almost half – or 45% of total investment – is in this sector. The agri-industry will continue to be a focus of Commercial in the years ahead.

A strong rural economy is key not only to the agriculture industry, but also to the growth and strength of our province. Rural-based business facilitated accounted for almost 75% of the total facilitated during the year. AFSC Commercial remains committed to ensuring businesses in rural locations continue to have access to the capital they need to grow their operations.

Following the lead of Alberta's entrepreneurs, AFSC Commercial continually looks at new and innovative ways to do business. Whether it's introducing new financial products, enhancing business development services, building more strategic alliances or delivering services more effectively, AFSC's goal is to support and strengthen Alberta's business community. Access is key. There are 11 Commercial offices in Alberta, and our professional lenders make regular visits to more than 100 communities throughout the year in an effort to make our services available to a broad spectrum of businesses.

CORPORATE

AFSC strives to have satisfied customers – as well as satisfied staff – at all stages of product delivery. AFSC took several actions in 2002-03 to review and enhance customer service delivery, maintain an efficient and effective working environment, and to ensure staff are happy and fulfilled in their careers.

Customer Satisfaction

AFSC conducts annual surveys to stay in touch with customers. Regular customer input helps us improve our products and services and directs us in our future research and development activities.

In 2002-03, satisfaction levels once again exceeded the 80% target for overall customer satisfaction, indicating that AFSC has been successful in providing the kind of service our customers need.

Business Goal 5:

To continuously improve customer service delivery to achieve high levels of customer satisfaction.

Key Results

Customers are satisfied.

Measures

Customer satisfaction.

Performance

- Customers who were satisfied with service delivery:
  - Insurance customers: 88%
  - FIDP customers: 87%
  - Farm Lending customers: 96.9%
  - Commercial customers: 89%

  (Target: 80% customer satisfaction based on survey)

Flexible Service Delivery: Website

More and more, our customers are turning to electronic means to manage their operations, access their financial information, check market information, buy and sell products, and even connect with others across the province or around the world. The Corporation is focusing on providing a choice to our customers through enhancements that allow greater electronic delivery of our services.

AFSC launched their website www.AFSC.ca in May 2002, giving farmers and small business owners access to program information. Monthly visits went from 2,704 in the first month of operation to 13,126 visits in March 2003. Total website visits for the year were over 113,000.

Business Goal 5:

To continuously improve customer service delivery to achieve high levels of customer satisfaction.

Key Results

Flexible service delivery.

Measures

Number of customer contacts (by AFSC and vice versa) by email and Internet.

- FIDP
- Lending

Performance

- For FIDP and Lending, 2,334 Internet emails were received and 780 Internet emails sent in 2002-03. (Target: 2002-03 is baseline year)

Marketing Our Expertise

AFSC's expertise as a provider of risk management products and services is widely recognized, and researchers in many different countries have approached us to share this expertise. We have helped other countries establish a crop insurance program similar to our own, assisted other

provinces in the implementation of safety net programs similar to our Farm Income Disaster Program, and even performed surveys and audits for other agricultural organizations. In 2002-03, this important work continued.

Revenues generated from the following activities helped offset the cost of delivering programs:

- The contract for consulting services to help Chile develop a crop insurance program continued in its third year.
- AFSC provided the Canadian Wheat Board with audits on farmer advances.
- A partnership with DuPont on their VIP FarmCare Benefit Program continued to provide farmers with improved access to insurance coverage through AFSC's network of offices.
- Assisted Alberta Agriculture, Food and Rural Development with a survey of customers regarding inventory information and input costs.

Business Goal 6:

To improve cost efficiency and Grow Alberta, AFSC will market its services to other jurisdictions in Alberta, Canada and internationally.

Key Results

Overhead for services provided to other jurisdictions is recovered.

Measures

$ of net overhead recovery.

Performance

- $322,000 in overhead recovered. (Target: $200,000 annually)

Managing Our Resources Effectively

A successful business needs employees who feel satisfied with their work and valued by their employer. Each year, AFSC employees indicate a high job satisfaction level, remaining above the 85% target established in 1999. Low staff turnover is typical for our organization, as is evidenced by 154 AFSC staff receiving awards in 2002-03 for service periods ranging from five to 25 years. In fact, 289 staff persons have ten or more years of service, out of a total staff of 592.

One very significant employee issue this past year was the merger with AOC. It is well known that mergers and acquisitions are far more successful if the staff affected can participate in decisions impacting their futures in the merged organization.

During the merger, executive management formed a number of employee task forces to identify issues, set direction and develop action plans for the integration of various systems, processes and functions of the merged organization. These task forces also consulted with other AFSC staff groups to obtain their feedback and suggestions for a successful merger.

Internal operating efficiencies also contributed to our successful business model in 2002-03. Administration costs, asset-to-employee ratios and management-to-staff ratios are all within industry standards, another indication of our progress towards building the best possible place to work, as well as an organization that others look to for leadership and innovation.

Business Goal 7:

To manage AFSC so it is effective, efficient and innovative.

Key Results

AFSC programs are delivered effectively.

Measures

Core program objective are met.

Performance

- Due to widespread drought, program evaluations to measure performance were postponed until fiscal 2003-04. (Target: 90% of program objectives met)

Business Goal 7: *(continued)*

To manage AFSC so it is effective, efficient and innovative.

Key Results

AFSC programs are delivered efficiently.

Measures

Crop Insurance administration cost to gross premiums and indemnities versus same ratio for other jurisdictions.

Performance

- Cost to gross premium ratio was within 10% for organizations offering similar volumes and products in Canada
  (Target: to be within 10% of the best in Canada)

Measures

Farm lending assets per farm lending employee versus same ratio for other lenders.

Performance

- Asset/employee ratio for farm lending was $5.54 million per employee, better than Canadian industry average of $4.91 million per employee.
  (Target: to be within 10% of the best in Canada)

Measures

Incremental investment facilitated per commercial lending manager.

Performance

- Average lending facilitated per Commercial manager was $4.7 million in incremental investment.

Measures

FIDP administration cost of claim ratio versus same ratio for other jurisdictions.

Performance

- Administration cost to claim ratio for FIDP was within 10% of other jurisdictions of similar size in Canada.
  (Target: to be within 10% of the best in Canada)

Key Results

AFSC is administered efficiently.

Measures

Management to staff ratio versus provincial government average.

Performance

- Management/staff ratio was 1:20, exceeding the provincial average of approximately 1:8.
  (Target: 10% better than Alberta average for government departments)

Key Results

AFSC employees have a high degree of job satisfaction.

Measures

Satisfaction rate of AFSC employees as measured by staff survey.

Performance

- Employee satisfaction was 85.9%.
  (Target: 85% satisfaction rate)

Summary of Lending

	Authorizations 2002-2003		Authorizations 2001-2002		Accumulated Authorizations June '72 - March 2003		Active and Outstanding March 31, 2003	
	No.	$M.	No.	$M.	No.	$M.	No.	$M.
Farm Direct Loans								
Beginning Farmer	754	88.8	876	113.6	20,525	2,214.9	8,974	710.2
Developing Farmer	26	4.7	24	4.9	573	57.8	179	24.3
Disaster Assistance	258	18.7	54	4.6	5,126	330.8	945	62.9
Other	0	0.0	0	0.0	2,587	110.9	310	9.9
Subtotal	**1,038**	**112.2**	**954**	**123.1**	**28,811**	**2,714.4**	**10,408**	**807.3**
Farm Guarantees								
Specific Guaranteed Loans	1	0.5	2	0.3	2,393	106.2	0	0.0
Alberta Farm Development Loans	661	23.4	1,040	28.2	168,354	2,246.1	4,508	85.4
Vendor Mortgage Loans	2	0.2	1	0.1	95	9.7	0	0.0
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	13	0.3
Subtotal	**664**	**24.1**	**1,043**	**28.6**	**170,842**	**2,362.0**	**4,521**	**85.7**
Total Farm	**1,702**	**136.3**	**1,997**	**151.7**	**199,653**	**5,076.4**	**14,929**	**893.0**
Commercial								
Direct Loans	264	51.4	324	57.4	10,127	1,235.5	1,123	170.0
Specific Guaranteed Loans	9	2.0	3	1.3	519	208.1	36	7.1
Canada-Alberta Partnership on Agri-food	0	0	0	0	69	17.4	0	0.0
Local Opportunity Bonds	0	0	0	0	3	2.1	2	0.8
Federal Lending Sources	23	18.8	15	31.2	100	132.0	46	56.0
Other	13	63.1	14	133.1	136	323.3	2	6.5
Total Commercial	**309**	**135.3**	**356**	**223**	**10,954**	**1,918.4**	**1,209**	**240.4**
CORPORATE GRAND TOTAL	**2,011**	**271.6**	**2,353**	**374.7**	**210,607**	**6,994.8**	**16,138**	**1,133.4**

Summary of Insurance

All Statistics as at May 14, 2003

Summary for Crop Insurance by Crop Year*

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1998	15,470	9,469	971,948	105,487	5,364	60,806	57.6
1999	14,786	9,449	1,013,983	103,915	3,160	28,957	27.9
2000	14,905	10,061	919,445	97,071	6,443	91,492	94.3
2001	15,206	10,997	1,252,078	133,607	7,798	204,586	153.1
2002 **	15,078	11,100	1,489,970	155,968	12,164	662,578	424.8

* Totals are for Crop Insurance, Processing Vegetables, Honey, Corn Heat Units, Second Year Fescue(2000-2001) and Cereal/Silage(2002)

Summary for Hail Endorsement by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1998	11,669	7,012	754,070	40,815	2,010	25,309	62.0
1999	11,145	7,106	797,952	37,008	2,036	22,799	61.6
2000	12,115	8,235	784,280	33,240	3,875	60,715	182.7
2001	12,688	9,278	1,096,090	46,069	2,485	39,080	84.8
2002 **	12,064	8,851	1,253,458	51,483	1,473	33,662	65.4

Summary for Forage (Hay) Insurance by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1998*	2,447	2,740	45,454	9,355	1,780	14,530	155.3
1999*	2,377	2,312	41,532	8,774	989	6,229	71.0
2000	1,574	350	19,521	4,324	752	4,950	114.5
2001	1,949	453	30,444	6,768	1,575	14,413	212.9
2002 **	2,977	658	54,116	11,504	2,459	35,771	310.9

* 1998 and 1999 data contains Hay and Pasture - 2000, 2001 and 2002 data is Hay only

Summary for Satellite Insurance (Pasture) by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
2001*	677	2,056	18,687	3,446	677	16,097	467.1
2002 **	1,989	5,591	59,016	11,220	1,700	29,775	265.4

* Pilot project for 2001

Summary for Lack of Moisture Insurance (Pasture) by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
2002 **	3,882	3,464	44,696	5,581	2,891	23,733	425.2

Summary for Straight Hail Insurance by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1998	9,177	4,824	454,518	22,401	1,174	11,696	52.2
1999	8,129	4,415	424,822	19,832	1,278	11,014	55.5
2000	7,673	4,264	410,067	18,188	2,309	32,314	177.7
2001	6,244	3,406	332,676	15,401	1,002	11,182	72.6
2002 **	5,105	3,051	295,411	13,434	797	10,219	76.1

Waterfowl/Wildlife Compensation Program by Crop Year

Crop Year	Wildlife Number of Losses	Wildlife Loss $,000	Waterfowl Number of Losses	Waterfowl Loss $,000	Total Number of Losses	Loss $,000
1998	141	407	102	251	243	658
1999	156	640	389	1,492	545	2,132
2000	430	3,113	582	3,045	1,012	6,158
2001	420	1,564	167	1,035	587	2,599
2002 **	453	1,891	303	1,731	756	3,622

** The above information reflects actual transactions up to May 14, 2003, while information in the Financial Statements includes adjustment, such as accruals.

Management's Responsibility for Financial Reporting

The preparation of these financial statements, management's discussion and analysis and all other financial information relating to the Corporation contained in this annual report is the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure corporate assets are safeguarded and liabilities are recognized. These control systems are subject to periodic review by the Corporation's internal auditors.

The Alberta Auditor General is responsible to express a professional opinion on these financial statements.

The Board of Directors Audit Committee, composed of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

Alan Steel
President and Managing Director

Krish Krishnaswamy, C.M.A.
Vice-President, Finance

AUDITOR'S REPORT

AUDITOR GENERAL *Alberta*

Alberta Legislature
Office of the Auditor General

To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 2003 and the statements of revenue, expense and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted audited standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn

Fred Dunn
FCA
Auditor General

Edmonton, Alberta
May 16, 2003

BALANCE SHEET

As at March 31, 2003
(in thousands)

	2003	2002 (Restated)
Assets		
Cash (Note 2(a))	$ 117,046	$ 16,387
Accounts receivable (Note 4)	17,353	15,023
Due from Province of Alberta	50,946	24,765
Due from Government of Canada	79,381	43,599
Due from Crop Reinsurance Fund of Canada for Alberta	15,977	-
Loans receivable (Notes 2(d), 5)	966,121	959,025
Investments (Note 6)	104,815	372,983
Property, plant and equipment (Note 7)	18,510	17,504
	$ 1,370,149	$ 1,449,286
Liabilities and Surplus		
Accounts payable and accrued liabilities	$ 27,159	$ 23,738
Estimated indemnities payable (Notes 2(d), 8)	164,247	77,335
Advance from Province of Alberta (Note 9)	110,000	-
Allowance for losses on loan guarantees (Note 15)	1,492	1,665
Notes payable (Note 10)	903,213	901,064
Deferred revenue (Note 11)	31,617	23,847
	1,237,728	1,027,649
Surplus	132,421	421,637
	$ 1,370,149	$ 1,449,286

Contingencies and commitments (Note 15)

The accompanying notes and schedules are part of these financial statements.

Approved by the Board:

Bernard Kotelko, Chair of Audit Committee

Bob Splane, Chairman

Statement of Revenue, Expense and Surplus

For the Year Ended March 31, 2003
(in thousands)

	Budget (Note 3(a))	2003 Actual (Schedule 1)	2002 Actual (Restated)
Revenue			
Premiums from insured persons, net	$ 80,078	$ 91,314	$ 58,887
Interest	81,595	72,455	73,736
Contribution from Province of Alberta, net	117,418	192,999	144,256
Contribution from Government of Canada, net	105,398	147,749	86,623
Investment income	20,350	28,161	33,505
Fees and other income	2,960	2,760	8,196
Amortization of loan discounts	638	864	901
	408,437	536,302	406,104
Expense			
Indemnities, net	275,032	888,416	335,679
Administration, Schedule 2	50,768	47,544	47,637
Interest	55,570	47,197	52,988
Farm loan incentives	6,418	6,401	5,973
Provision for doubtful accounts and for losses (Note 14)	5,248	3,504	4,708
Adjusting, net	6,129	2,771	4,653
Selling commissions	2,254	1,317	1,472
	401,419	997,150	453,110
(Deficiency) surplus of revenue over expense before recoveries	7,018	(460,848)	(47,006)
Net recoveries	-	171,632	(38)
(Deficit) surplus for the year	$ 7,018	(289,216)	(47,044)
Surplus at beginning of year		421,637	468,681
Surplus at end of year		$ 132,421	$ 421,637

Statement of Cash Flows

For the Year Ended March 31, 2003
(in thousands)

	2003	2002
Operating activities		
Deficit for the year	$ (289,216)	$ (47,044)
Changes not affecting cash	(5,138)	(1,818)
Changes in assets and liabilities relating to operations	133,132	(30,170)
Net cash utilized by operating activities[1]	(161,222)	(79,032)
Investing activities		
Proceeds from repayments of loans receivable and sale of properties	153,438	141,821
Loan disbursements	(163,658)	(175,382)
Purchase of investments	(531,521)	(605,815)
Proceeds on disposal of investments	804,847	650,678
Purchase of property, plant and equipment	(4,577)	(2,807)
Proceeds on disposal of property, plant and equipment	106	40
Net cash provided by investing activities	258,635	8,535
Financing activities		
Borrowing from the Province of Alberta	875,288	1,510,100
Repayment of borrowing from the Province of Alberta	(873,008)	(1,475,574)
Government of Canada funding for property, plant and equipment	413	482
Province of Alberta funding for property, plant and equipment	553	1,751
Net cash provided by financing activities	3,246	36,759
Net increase (decrease) in cash from operating, investing and financing activities	100,659	(33,738)
Cash at beginning of year	16,387	50,125
Cash at end of year	$ 117,046	$ 16,387

(1) Net cash provided by operating activities includes $47,436,000 (2002 $52,605,000) of interest paid.

Notes to the Financial Statements

March 31, 2003 (tabular amounts in thousands of dollars)

Note 1
Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12 RSA 2000. Effective April 1, 2002, Alberta Opportunity Company merged with the Corporation pursuant to Part 3 of the Agriculture Financial Services Act.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance, hail insurance and farm income disaster payments. It also delivers other programs and services including loans to developing farmers, disaster loans, loan guarantees, and business planning/counselling. The Corporation originates and administers agribusiness loans in Alberta for Farm Credit Canada.

Note 2
Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(a) **Cash**

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

(b) **Investments**

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(c) **Property, Plant and Equipment**

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25 years
Computer equipment	5 years
Software development costs	10 years
Equipment and furniture	10 years
Vehicles	5 years

(d) **Measurement Uncertainty**

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount.

Estimated indemnities payable, recorded as $164,247,000 in these financial statements, is subject to measurement uncertainty. Estimated indemnities payable consist of known liabilities payable at the year end and additional liabilities estimated by management based on historical information and current economic indicators.

The Farm Income Disaster Program may pay a farm business when it experiences a disastrous drop in margins on farm operations. Subject to certain conditions, if the program margin for the farming business falls below 70% of the average margin for the best three of the previous five years, an indemnity may be payable. The majority of applications are received after the Corporation's fiscal year end which is the main contributing factor to measurement uncertainty.

Note 2
Significant Accounting Policies and Reporting Practices (continued)

(d) Measurement Uncertainty (continued)

The Corporation has recorded a liability to provide for estimated indemnities payable under the Farm Income Disaster Program (see Note 8). Indemnities to be paid may be more or less than the amount recorded because the estimate is made before the majority of applications are received. It is also difficult to predict the estimated indemnities payable because of the wide variation in the impact disasters have on individual program margins. The estimated indemnities payable may be as low as $119,000,000 or as high as $199,500,000. Indemnities payable under the Program are limited to a maximum of $200,000,000 for claims from producers who have year ends in any fiscal year.

Loans receivable, recorded as $966,121,000 in these financial statements, are subject to measurement uncertainty. Loans receivable have been reduced by a provision of $39,779,000 for estimated losses on loans. The provision estimated by management (see Note 2(k)) could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

(e) Notes Payable

Notes payable are carried at amortized cost. Premiums and discounts on notes payable are amortized to interest expense using the effective yield method over the period to maturity.

(f) Fair Value of Financial Instruments

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Province of Alberta, Due from Government of Canada, Due from Crop Reinsurance Fund of Canada for Alberta, Accounts payable and accrued liabilities, Estimated indemnities payable, and Advance from Province of Alberta. Fair values of Loans receivable, Investments and Notes payable are disclosed in their respective notes.

(g) Reinsurance Ceded

Premiums from insured persons, Contributions from the Province of Alberta, Contributions from the Government of Canada, Indemnities and Adjusting are recorded net of amounts ceded to or recoverable from reinsurers (see Note 12). Estimates of amounts recoverable from reinsurers on indemnities and adjusting expenses are recorded in Accounts receivable.

(h) Loan Discounting

Loans made under the Alberta Disaster Assistance Loan Program, Alberta Farm Income Disaster program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(i) Revenue Recognition

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Premiums from insured persons, including federal and provincial government contributions, are recognized as income when invoiced to producers.

Note 2
Significant Accounting Policies and Reporting Practices (continued)

(i) Revenue Recognition (continued)

Federal and provincial contributions for property, plant and equipment acquisitions are recorded as deferred revenue until that revenue is recognized on the same basis as those property, plant and equipment costs are amortized.

Loan application fees are recognized when the application is received. Loan fees are recognized when received which is after approval but prior to the time of loan disbursement. Other fees are recorded when the Corporation completes the applicable service.

(j) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

(k) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated but not specifically identified losses. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recorded investment in the loan by the discounted fair value of the security and the estimated costs to collect. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

The majority of the Corporation's loan portfolio is with beginning and developing business operations and hence, is subject to high risk. The Corporation recognizes this by providing significant general allowances for doubtful accounts. In establishing the general component of the allowance, management estimates loss percentages and applies them to loans receivable balances categorized into risk pools. Risk pools are established based on land value trends, the impact of federal and provincial government programs, international trade criteria, future commodity price trends, climatic conditions and the financial stability of the borrower.

(l) Transactions with Related Parties

All related party transactions have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 17).

(m) Merger with Alberta Opportunity Company

Alberta Opportunity Company assets, liabilities, surplus, revenue and expenses at net book value for 2002 have been reclassified where necessary and combined with the Corporation's results to conform and make the comparables meaningful (see Note 19).

Note 3
Financial Structure

(a) Budget

The budget was authorized through the Legislative Assembly which reflects contributions from the Province of Alberta of $123,821,000. The budgeted contribution from the Province of Alberta was adjusted by $6,403,000 for ceded reinsurance and deferred revenue.

The Board of Directors of the Alberta Opportunity Company and the Corporation approved the budgets of the respective organization prior to the merger.

Note 3
Financial Structure (continued)

(b) Insurance, Safety Net and Compensation Programs

Programs administered by the Corporation are funded as follows:

	Premiums	Indemnities	Administration Costs
Crop Insurance			
Coverage up to 50%[1] of risk	20% Producers 40% Alberta 40% Canada	Premiums, Crop Insurance Fund, Private Sector Reinsurance and Government Reinsurance Funds	50% Alberta[3] 50% Canada[3]
Coverage greater than 50% and Hail Endorsement	50% Producers 27% Alberta 23% Canada		
Farm Income Disaster	N/A	58% Alberta[2] 42% Canada[2]	42% Alberta 58% Canada
Hail Insurance	100% Producers	Premiums, Private Sector Reinsurance and Hail Insurance Fund	100% Producers
Wildlife Compensation	N/A	60% Alberta 40% Canada	50% Alberta[3] 50% Canada[3]

(1) Coverage does not include hail endorsement.

(2) Based on the Federal-Provincial Agreement, the Government of Canada and the provincial governments have agreed to fund an agricultural disaster program called the Canadian Farm Income Program (CFIP). It has been further agreed that Alberta's Farm Income Disaster Program (FIDP) will be used to deliver the majority of this assistance in Alberta. Federal funding is subject to an annual cap which could result in Canada paying a lower share of indemnities.

(3) Administration costs are offset by fees and other income before Government of Canada and Province of Alberta funding is provided.

Note 3
Financial Structure (continued)

(b) Insurance, Safety Net and Compensation Programs (continued)

The Crop Insurance program is administered in accordance with the Canada Alberta Crop Insurance Agreement. The agreement determines what adequate balances are for the crop insurance and reinsurance funds to keep the program actuarially sound over the longer term, the percentage of premiums to be transferred to these funds if required and how indemnities are paid from each of these funds. During the years ended March 31, 2002 and March 31, 2003, no premium transfers were required by the agreement because fund balances were deemed adequate to meet indemnity payments.

(c) Provincial Crop Fund Balance

The Crop Insurance Program includes premiums, premiums ceded to reinsurers, investment income, indemnities and reinsurance recoveries on indemnities which are not part of the national program described in the Canada Alberta Crop Insurance Agreement. Therefore, there are two parts to the fund balance, the fund balance of the national program and the fund balance related to the funds which are not a part of the national program. This latter fund balance, or provincial fund, is $75,402,000 (2002 $47,322,000). This provincial fund balance is not included in the determination of premium transfers to the reinsurance funds (see note 3(b)).

(d) Crop Fund Balance Restriction

In accordance with the Canada Alberta Crop Insurance Agreement, the crop insurance fund is restricted to being used for crop insurance purposes.

(e) Lending Programs

The Corporation's loans are funded by short and long-term borrowing from the Province of Alberta. An agreement with the Province provides for the Corporation to obtain financing from the Province on the same terms at which the Province borrows that money. The Corporation has a maximum line of credit of $1,200,000,000. The Corporation's lending operations are funded by customers and by contributions from the Province of Alberta.

(f) Other Revenue and Expenses

The Other column in the Schedule of Revenue, Expense and Surplus includes the wildlife program, and consulting fees and expenses that are not attributable to any of the programs disclosed in the Schedule.

Note 4
Accounts Receivable

	2003	2002
Premiums from insured persons:		
Crop insurance program	$ 17,450	$ 10,365
Hail insurance program	128	51
Due from Reinsurers	42	4,899
Other	768	800
	18,388	16,115
Less allowances for doubtful accounts (Note 14)	(1,035)	(1,092)
	$ 17,353	$ 15,023

Note 5
Loans Receivable

Loans receivable are comprised of the following:

				2003	2002
	Recorded Investment	Specific Allowance	General Allowance	Net Carrying Value	Net Carrying Value
Farm Lending	$ 817,031	$ 2,330	$ 25,235	$ 789,466	$ 786,616
Commercial Lending	170,515	4,628	7,586	158,301	153,432
	$ 987,546	$ 6,958	$ 32,821	947,767	940,048
Accrued interest				24,680	25,752
Accrued incentives				(2,672)	(2,677)
Loan discounts				(3,654)	(4,098)
				$ 966,121	$ 959,025

Note 5
Loans Receivable (continued)

Impaired loans included in the preceding schedule:

			2003	2002
	Recorded Investment	Specific Allowance	Net Carrying Value	Net Carrying Value
Commercial Lending	$ 13,191	$ 4,628	$ 8,563	$ 9,843
Farm Lending	7,655	2,330	5,325	5,173
	$ 20,846	$ 6,958	$ 13,888	$ 15,016

The impaired loans balance includes property held for sale which has been acquired as a result of foreclosures, quit claims and other actions. There is a specific allowance of $1,409,000 (2002 $1,782,000) on property balances outstanding of $2,738,000 (2002 $2,532,000).

Loans receivable does not include prepaid balances $15,918,000 (2002 $15,402,000) which are included in Accounts payable and accrued liabilities.

Included in the above loans receivable balance are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2003	2002
Alberta Farm Income Disaster loans	$ 40,579	$ 45,540
Alberta Disaster Assistance Loan Program	15,869	-
Indexed Deferral Plan	3,186	4,512
	$ 59,634	$ 50,052

The approximate fair value of loans receivable at March 31, 2003 is $951,297,000 (2002 $945,569,000). Fair value is based on future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

Note 6
Investments

	2003	2002
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 19,853	$ 225,134
Other provincial direct and guaranteed	45,058	86,476
	64,911	311,610
Corporate securities	38,305	55,695
	103,216	367,305
Accrued interest	1,599	5,678
	$ 104,815	$ 372,983

The fair value of investments at March 31, 2003 is $106,801,000 (2002 $374,933,000). Fair value is based on quoted market prices including accrued interest.

Note 7
Property, Plant and Equipment

	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Software development costs	$ 18,659	$ 6,677	$ 11,982	$ 11,897
Computer equipment	6,161	4,259	1,902	1,869
Equipment and furniture	3,595	1,567	2,028	1,091
Building	2,974	1,171	1,803	1,864
Vehicles	1,336	821	515	500
Land	280	-	280	280
Leasehold improvements	-	-	-	3
	$ 33,005	$ 14,495	$ 18,510	$ 17,504

Software development costs include $2,308,000 (2002 $384,000) of costs incurred that are not amortized because they are still in the developmental stage.

Note 8
Estimated Indemnities Payable

	2003	2002
Farm Income Disaster Program	$ 131,679	$ 74,117
Crop insurance	30,580	2,824
Wildlife compensation	1,960	160
Hail insurance	28	234
	$ 164,247	$ 77,335

Note 9
Advance From Province of Alberta

The advance from the Province of Alberta of $110,000,000 represents an amount repayable without interest by the Corporation as and when future cash flows permit.

Note 10
Notes Payable

Notes payable to the Province of Alberta are comprised of the following:

	Calendar Year of Maturity	Weighted Average Interest Rate	2003	2002
Short-term notes	2002-2004	3.19%	$ 52,147	$ 110,769
Note payable 01	2011	7.64%	17,365	18,772
Note payable 02	2010	5.58%	36,836	40,413
Note payable 03	2013	5.43%	37,772	40,380
Note payable 04	2013	5.84%	27,031	28,852
Note payable 05	2016	6.52%	87,767	91,727
Note payable 06	2010	5.94%	22,442	23,502
Note payable 07	2016	5.93%	82,526	90,407
Note payable 08A	2016	5.86%	45,116	47,260
Note payable 08B	2002	5.46%	-	12,216
Note payable 09	2011	5.56%	138,830	149,655
Note payable 10	2005	5.23%	24,154	24,589
Note payable 11	2003	4.79%	25,070	25,782
Note payable 12	2004	5.05%	25,374	25,677
Note payable 13A	2016	5.99%	45,622	47,767
Note payable 13B	2003	5.25%	-	14,169
Note payable 14	2004	4.94%	24,926	24,884
Note payable 15A	2006	5.54%	24,758	24,701
Note payable 15B	2003	5.41%	9,980	9,955
Note payable 16	2005	3.64%	50,000	-
Note payable 17	2007	4.15%	25,000	-
Note payable 18	2004	3.10%	24,128	-
Note payable 19A	2016	5.04%	26,365	-
Note payable 19B	2004	5.33%	5,998	5,996
Note payable 23B	2004	6.15%	5,962	5,944
Note payable 25B	2005	5.23%	14,491	14,728
Note payable 27B	2006	5.54%	9,902	9,880
			889,562	888,025
Accrued interest			13,651	13,039
			$ 903,213	$ 901,064

Notes Payable include net unamortized discounts of $3,228,000 (2002 $3,337,000).

Note 10
Notes Payable (continued)

Principal repayments due in each of the next five years are as follows:

Year ending March 31, 2004	$ 149,974
2005	$ 134,972
2006	$ 129,985
2007	$ 95,609
2008	$ 82,331

The approximate fair value at March 31, 2003 is $923,957,000 (2002 $908,670,000). Fair values for notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. They include the following:

(a) a liquidity premium to reflect that there is a limited pool of these securities for trading in the market, they would be new to the market and are not direct issues of the Province,

(b) a factor to reflect the blended payment structure of the notes.

Note 11
Deferred Revenue

	2003	2002
Premiums from insured persons	$ 19,398	$ 10,023
Province of Alberta property, plant and equipment	7,464	8,487
Government of Canada property, plant and equipment	4,755	5,271
Deferred Guarantee Revenue	-	66
	$ 31,617	$ 23,847

Note 12
Reinsurance

In addition to the protection provided by the crop insurance and crop reinsurance funds and the hail insurance fund, the Corporation has obtained reinsurance from non-government sources. For Crop Insurance, the Corporation reinsured a maximum of $146,670,000 of the risk. For Hail Insurance, the Corporation reinsured a maximum of $3,275,000 of the risk.

The figures shown on the Statement of Revenue, Expense and Surplus are net of the following amounts relating to reinsurance ceded to reinsurers.

Note 12
Reinsurance (continued)

	2003 Crop Insurance	2002 Crop Insurance	2003 Hail Insurance	2002 Hail Insurance
Gross premiums from insured persons	$ 95,976	$ 78,841	$ 13,436	$ 15,397
Premium discounts/rebates	(3,140)	(25,431)	(4,132)	(3,322)
Ceded to reinsurers	(10,547)	(6,294)	(279)	(304)
Premiums from insured persons, net	$ 82,289	$ 47,116	$ 9,025	$ 11,771
Premium contributions from Province of Alberta	$ 69,715	$ 65,009	$ -	$ -
Contribution for administration and adjusting expenses	11,617	10,703	-	-
	81,332	75,712	-	-
Ceded to reinsurers	(8,657)	(5,578)	-	-
Contribution from Province of Alberta, net	$ 72,675	$ 70,134	$ -	$ -
Premium contributions from Government of Canada	$ 65,249	$ 41,785	$ -	$ -
Contribution for administration and adjusting expenses	11,401	10,703	-	-
	76,650	52,488	-	-
Ceded to reinsurers	(7,578)	(3,805)	-	-
Contribution from Government of Canada, net	$ 69,072	$ 48,683	$ -	$ -
Gross premiums from all sources	$ 230,940	$ 185,635	$ 13,436	$ 15,397
Gross indemnities	$ 803,779	$ 274,125	$ 10,209	$ 11,182
Reinsurance recoveries	(108,006)	(41,611)	-	-
Indemnities, net	$ 695,773	$ 232,514	$ 10,209	$ 11,182
Gross adjusting expenses	$ 7,780	$ 5,891	$ 172	$ 389
Reinsurance recoveries	(5,400)	(1,951)	-	-
Adjusting, net	$ 2,380	$ 3,940	$ 172	$ 389

Note 13
Pensions

The Corporation participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,370,000 for the year ended March 31, 2003 (2002 $1,284,000).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968,000 (2001 surplus $5,338,000) and the Public Service Pension Plan reported an actuarial deficiency of $175,528,000 (2001 actuarial surplus $320,487,000). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472,000 (2001 deficiency $399,000).

Note 14
Allowances for Doubtful Accounts and for Losses

	Accounts Receivable (Note 4)	Farm Lending Loans Receivable	Commercial Lending Loans Receivable	Loan Guarantees (Note 15)	Total
Allowances at March 31, 2001	$ 133	$ 22,624	$ 15,389	$ 1,961	$ 40,107
Provision for 2001-02	949	3,620	435	(296)	4,708
Write-offs in 2001-02, net of recoveries	10	(1,099)	(3,244)	-	(4,333)
Allowances at March 31, 2002	1,092	25,145	12,580	1,665	40,482
Provision for 2002-03	(36)	3,138	575	(173)	3,504
Write-offs in 2002-03, net of recoveries	(21)	(718)	(941)	-	(1,680)
Allowances at March 31, 2003	$ 1,035	$ 27,565	$ 12,214	$ 1,492	$ 42,306

Note 15
Contingencies and Commitments

		2003		2002
Loan guarantees	$	46,263	$	52,992
Less allowances for losses (Note 14)		(1,492)		(1,665)
		44,771		51,327
Legal actions		1,100		16,906
Total contingencies	$	45,871	$	68,233

Contingencies under the Alberta Farm Development Loans program comprise $33,125,000 (2002 $39,081,000) of the loan guarantees. Loans made by other financial institutions outstanding under this program at March 31, 2003 were $83,829,000 (2002 $99,617,000). The outcome of the legal actions is not determinable at this time.

		2003		2002
Estimated farm loan incentives	$	17,774	$	19,427
Approved, undisbursed loans		34,390		37,855
Reinsurance		31,801		30,800
Operating leases		3,230		2,840
Total commitments	$	87,195	$	90,922

The operating lease commitments are for accommodations with terms up to five years.

Note 16
Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies.

Lending staff manage the Corporation's significant credit risk exposure in the beginning and developing business loans by monitoring accounts very closely. This enables the Corporation to counsel owners of businesses to take quick action if problems start to occur and enables the Corporation to take prompt action to realize on its security. Security requirements for individual loans reflect the degree of risk in each particular operation. Enterprises needing specialized and customized equipment, or those involved with new and emerging business, are required to have significantly higher security margins than enterprises in more traditional businesses. Although these measures do not eliminate the risk, they do reduce the risk of significant losses if there is a province-wide economic downturn.

The Corporation, through its reinsurance broker, monitors the concentration of credit risk for the insurance contract it holds with each reinsurer (see Note 12) and evaluates the financial condition of each reinsurer. There is no significant reliance on any one reinsurer.

For insurance premiums receivable, a discount is provided for early payment of premiums. Payment arrangements are set for all customers not taking advantage of the offered discount. Outstanding premiums are closely monitored by insurance staff and collection action is taken promptly when required. Insurance contracts cannot be renewed if premiums for the prior year are outstanding at the renewal date.

(b) Interest Risk

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Corporation matches the repayment timing of amounts borrowed with the repayment timing of loans made as closely as practical. Longer term repayments are partially financed by funding from other sources and surplus.

Interest rates are fixed for the life of Beginning Farmer loans, the major portion of the Corporation's loan portfolio. The Corporation does not set these rates to reflect the cost of money in the market. To maintain the current interest rate for future Beginning Farmer loans if there are significant increases in market interest rates, increases in the contribution from the Province will be required.

The following provides a breakdown of the gaps between the notes payable and the loan portfolio. Because there are no early repayment penalties on most loan programs, the gap analysis includes an adjustment for expected repayments based on historical patterns.

Note 16
Credit Risk and Interest Risk (continued)

(b) Interest Risk (continued)

	Term to Maturity[1]				Not[2] Interest Rate Sensitive	2003 Total	2002 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years			
Farm loans	$ 56,600	$ 239,533	$ 255,770	$ 253,286	$ 4,714	$ 809,903	$806,963
Yield[3]	7.10%	7.24%	7.31%	7.38%	-	7.25%	7.30%
Commercial loans	$ 45,094	$ 109,723	$ 795	$ -	$ 606	$ 156,218	$152,062
Yield[3]	7.70%	7.95%	7.63%	-	-	7.84%	10.13%
Total	$ 101,694	$ 349,256	$ 256,565	$ 253,286	$ 5,320	$ 966,121	$959,025
Yield[3]	7.20%	7.30%	7.31%	7.38%	-	7.29%	7.74%
Notes payable							
Province of Alberta	$149,974	$ 442,897	$ 217,550	$ 82,432	$ 10,360	$ 903,213	$901,064
Yield[3]	5.80%	6.11%	6.61%	6.33%	-	6.13%	6.21%
Net gap before prepayment adjustment	$ (48,280)	$ (93,641)	$ 39,015	$ 170,854	$ (5,040)	$ 62,908	$ 57,961
Estimated prepayment	48,350	68,667	(23,696)	(93,321)	-	-	-
Net gap	$ 70	$ (24,974)	$ 15,319	$ 77,533	$ (5,040)	$ 62,908	$ 57,961

The gap positions represent the mismatching of the financing with the loan portfolio at March 31, 2003. The gaps provide an indication of the potential risks to the Corporation if interest rates change. At March 31, 2003 an immediate and sustained increase in interest rates of 1% would increase net interest paid by $112,000 and would increase the net fair market value of loans and financing for the next fiscal year by $10,686,000 based on the net gap before prepayment adjustment. A corresponding decrease in interest rates would decrease the net interest paid and would decrease the net fair market value of loans and financing by a similar amount over the same period.

This gap analysis does not include the investment portfolio, which is disclosed separately below. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

Note 16
Credit Risk and Interest Risk (continued)

The Corporation's Investment Policy is set with terms that attempt to anticipate the expected future cash flows of the Crop Insurance and Hail Insurance funds. The expected future cash flows are based on historical information modified for current factors that may impact historical results.

The following provides a breakdown of the investment portfolio by term to maturity.

(b) Interest Risk (continued)

	Term to Maturity[1]				2003	2002
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
Bonds and debentures	$ -	$ 41,196	$ 11,861	$ 11,854	$ 64,911	$311,610
Yield[3]	-	4.92%	5.34%	6.02%	5.19%	5.15%
Corporate Securities	-	38,305	-	-	38,305	55,695
Yield[3]	-	5.27%	-	-	5.27%	6.07%
	-	79,501	11,861	11,854	103,216	367,305
Accrued interest	-	1,169	239	191	1,599	5,678
	$ -	$ 80,670	$ 12,100	$ 12,045	$ 104,815	$372,983

(1) For loans, term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the loan. For notes payable, term to maturity reflects the contractual maturity date of the debt. The interest rates are fixed until maturity. Repayment is either by semi-annual or annual installments of principal. For investments, term to maturity classifications are based on contractual maturity date of the security.

(2) Includes property held for sale, general provisions, accrued beginning farmer incentives, accrued interest and unamortized loan discount.

(3) For loans and investments, yield represents the rate which discounts future cash receipts to the carrying amount. For notes payable, yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date.

Note 17
Related Party Transactions

Sufficient information is provided throughout the statements to disclose significant related party transactions the Corporation entered into, except for the following:

	2003	2002
Interest expense - Province of Alberta	$ 47,196	$ 52,942
Administration expense - Province of Alberta	2,368	2,814

Note 18
Crop Reinsurance Funds

In accordance with the Canada Alberta Crop Insurance Agreement, two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement (see Note 3(b)).

Contributions to and withdrawals from the provincial reinsurance fund are consolidated with the crop insurance fund in the Corporation. The following transactions and balances are calculated according to the Canada Alberta Crop Insurance Agreement.

	Crop Reinsurance Fund of Alberta	
	2003	2002
Opening surplus	$ 53,518	$ 53,518
Contributions	-	-
	53,518	53,518
Withdrawals	(98,407)	-
Closing (deficit) surplus	$ (44,889)	$ 53,518

The Crop Reinsurance Fund of Alberta was not previously consolidated with the crop insurance fund. The retroactive consolidation resulted in the 2002 figures being restated as follows:

	As Previously Reported	Change	Restated
Due to Crop Reinsurance Fund of Alberta	$ 53,518	$ (53,518)	$ -
Surplus at beginning of year	415,163	53,518	468,681
Surplus at end of year	368,119	53,518	421,637

Note 18
Crop Reinsurance Funds (continued)

Contributions to the federal reinsurance fund are expensed and withdrawals are recorded as recoveries by the Corporation. The following is a summary of transactions in the Crop Reinsurance Fund of Canada for Alberta.

	Crop Reinsurance Fund of Canada for Alberta	
	2003	2002
Opening surplus	$ 77,225	$ 77,225
Contributions	-	-
	77,225	77,225
Recoveries by the Corporation	(171,632)	-
Closing (deficit) surplus	$ (94,407)	$ 77,225

Note 19
Merger with Alberta Opportunity Company

The net book value of the assets, property and liabilities assumed by the Corporation on April 1, 2002 due to the merger were as follows:

Cash	$ 4,185
Accounts receivable	16
Loans receivable	122,903
Property, plant and equipment	1,156
Accounts payable and accrued liabilities	(1,560)
Notes payable	(83,655)
Deferred revenue	(66)
	$ 42,979

Obligations assumed by the Corporation are as follows:

Commitments	$ 12,159
Contingencies	5,963
	$ 18,122

Note 20
Comparative Figures

The 2002 figures have been reclassified and restated where necessary to conform to 2003 presentation.

Schedule 1

Schedule of Revenue, Expense and Surplus

For the Year Ended March 31, 2003
(in thousands)

	2003 Crop Insurance	2002 Crop Insurance (Restated)	2003 Farm Income Disaster	2002 Farm Income Disaster	2003 Farm Lending	2002 Farm Lending
Revenue:						
Premiums from insured persons, net (Note 12)	$ 82,289	$ 47,116	$ -	$ -	$ -	$ -
Interest	222	146	20	3	58,562	58,579
Contribution from Province of Alberta, net (Note 12)	72,675	70,134	104,415	60,746	3,290	7,944
Contribution from Government of Canada, net (Note 12)	69,072	48,683	76,252	33,398	-	-
Investment income	23,178	28,781	556	532	220	330
Fees and other income	67	4,589	42	69	911	1,202
Amortization of loan discounts	-	-	-	-	856	855
	247,503	199,449	181,285	94,748	63,839	68,910
Expense:						
Indemnities, net (Note 12)	695,773	232,514	176,653	89,372	-	-
Administration, Schedule 2	19,857	16,914	4,632	5,376	11,290	12,399
Interest	-	-	-	-	42,112	47,308
Farm loan incentives	-	-	-	-	6,401	5,973
Provision for doubtful accounts and for losses	(16)	944	-	-	2,997	3,230
Adjusting, net (Note 12)	2,380	3,940	-	-	-	-
Selling commissions	-	-	-	-	-	-
	717,994	254,312	181,285	94,748	62,800	68,910
(Deficiency) surplus of revenue over expense before recoveries	(470,491)	(54,863)	-	-	1,039	-
Recoverable from Government of Canada (Note 18)	171,632	-	-	-	-	-
Recoverable by Province of Alberta	-	-	-	-	-	-
	171,632	-	-	-	-	-
(Deficit) surplus for the year	(298,859)	(54,863)	-	-	1,039	-
Surplus (deficit) at beginning of year	329,372	384,235	-	-	-	-
Surplus at end of year	$ 30,513	$ 329,372	$ -	$ -	$ 1,039	$ -

2003 Commercial Lending	2002 Commercial Lending	2003 Hail Insurance	2002 Hail Insurance	2003 Other	2002 Other	2003 Total	2002 Total (Restated)
$ -	$ -	$ 9,025	$ 11,771	$ -	$ -	$ 91,314	$ 58,887
13,620	14,943	31	65		-	72,455	73,736
9,035	3,755	-	-	3,584	1,677	192,999	144,256
-	3,379	-	-	2,425	1,163	147,749	86,623
212	587	3,994	3,218	1	57	28,161	33,505
1,241	1,408	176	405	323	523	2,760	8,196
8	46	-	-	-	-	864	901
24,116	24,118	13,226	15,459	6,333	3,420	536,302	406,104
-	-	10,209	11,182	5,781	2,611	888,416	335,679
10,827	11,694	753	1,037	185	217	47,344	47,637
5,085	5,680	-	-	-	-	47,197	52,988
-	-	-	-	-	-	6,401	5,973
543	529	(20)	13		(8)	3,504	4,708
-	-	172	389	219	324	2,771	4,653
-	-	1,317	1,472	-	-	1,317	1,472
16,455	17,903	12,431	14,093	6,185	3,144	997,150	453,110
7,661	6,215	795	1,366	148	276	(460,848)	(47,006)
-	-	-	-	-	244	171,632	244
-	-	-	-	-	(282)	-	(282)
-	-	-	-	-	(38)	171,632	(38)
7,661	6,215	795	1,366	148	238	(289,216)	(47,044)
42,979	36,764	49,086	47,720	200	(38)	421,637	468,681
$ 50,640	$ 42,979	$ 49,881	$ 49,086	$ 348	$ 200	$ 132,421	$ 421,637

Schedule 2

Schedule of Administration Expense

For the Year Ended March 31, 2003
(in thousands)

	Budget (Note 3(a))	2003 Actual	2002 Actual
Salaries and benefits (Note 13)	$ 30,483	$ 29,298	$ 30,234
Contracted services	5,633	5,239	4,873
Amortization of capital assets	3,060	3,311	3,012
Office accommodation costs	3,707	3,144	3,329
Stationery and supplies	1,195	989	1,000
Travel and automobile	1,071	960	912
Data processing	761	826	942
Advertising	920	801	774
Professional services	980	620	616
Telecommunications	955	579	511
Directors' fees and expenses	456	488	320
Training, meetings, seminars, conferences	526	417	324
Equipment, rental and maintenance	506	361	349
Postage and freight	265	339	221
Insurance	120	90	94
Grain grading	65	59	53
Bank charges	17	13	56
Collection commissions	48	10	17
	$ 50,768	$ 47,544	$ 47,637

Schedule 3

Schedule of Salaries and Benefits

For the Year Ended March 31, 2003
(in thousands)

	Salary and Wages	Benefits and Allowances [2]	2003 Total	2002 Total
Chair	$ 85	$ -	$ 85	$ 49
Board members	253	-	253	153
President and Managing Director	150	62	212 [3]	183
Vice-President, Finance	124	54	178	157
Vice-President, Information Technology and Administrative Services	124	54	178	161
Vice-President, Insurance Operations [4]	123	56	179	135
Vice-President, Lending	117	49	166	10 [5]
Executive Consultant and Research Director [6]	124	53	177	156

(1) Salary and wages are fees for Chair and Board members and regular base pay for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, flexible health, dental and vision care allowance, group life insurance, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation, professional memberships, vacation payouts and achievement bonus. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.

(3) The current President and Managing Director commenced employment on June 1, 2002. An Acting President held that position for the months of April 2002 and May 2002. The salary and benefits includes the current President and Managing Director and the Acting President.

(4) The position of Vice-President, Field Operations was replaced by Vice-President, Insurance Operations effective March 12, 2003.

(5) This is a new position created March 6, 2002. Salary and benefits are for the period March 6, 2002 to March 31, 2002.

(6) The position of Vice-President, Research, Information and Development was replaced by Executive Consultant and Research Director effective March 12, 2003.

Regional Map

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